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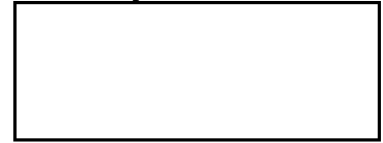
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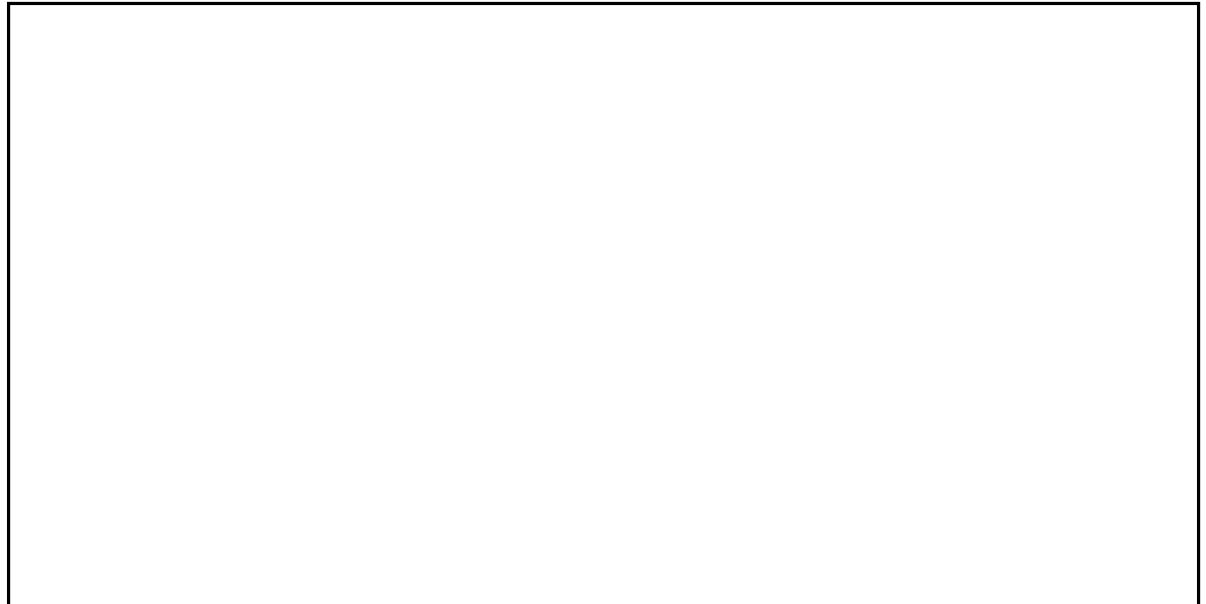


Contents

Situation Report

Iran 1

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Special Analyses

USSR: *Dollar Defense Activities Comparisons* . 10

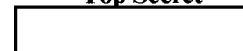
Iran: *Leftists in the Opposition* 13

Overnight Reports 17

25X1



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SITUATION REPORT

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IRAN

Negotiations between Ayatollah Khomeini's lieutenants in Tehran and Iranian military leaders may have helped pave the way for the religious leader's return later this week.

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According to press reports, several thousand Air Force officers and enlisted men have gone on a hunger strike to impress upon their superiors that they will not participate in a coup.

Prime Minister Bakhtiar's assertions that he will not cede his constitutional powers to Khomeini have become increasingly strident. Khomeini may have decided to follow the advice of religious moderate Mohammad Beheshti and Liberation Movement of Iran leader Mehdi Bazargan that he avoid a direct confrontation with Bakhtiar and tolerate the Prime Minister's efforts for the time being. While unlikely to retract his statement that Bakhtiar's position is illegal, Khomeini may have realized the necessity of making tactical concessions if he is not to delay further his return to Iran.

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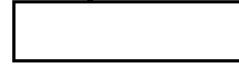
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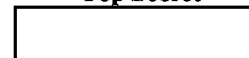
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The avoidance of a confrontation between Bakhtiar and Khomeini's forces could help convince the military that they too can work out an accommodation with the religious group. At this stage, however, the Regency Council and Khomeini's Islamic Revolutionary Council--whose members are not yet known--have made little progress in resolving how the two groups will relate to one another.



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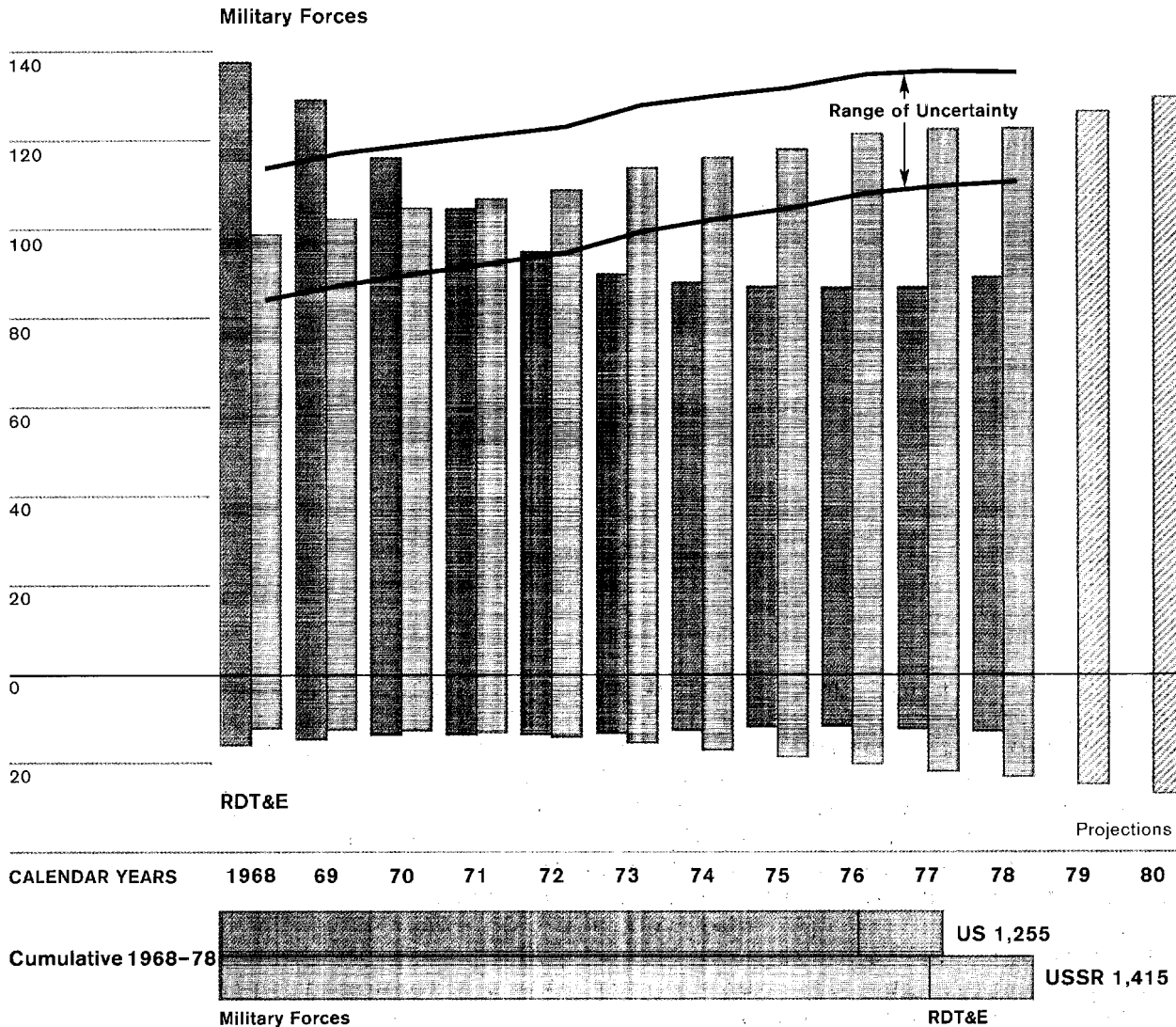
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Total US and Soviet Defense Activities

A Comparison of US Outlays With Estimated Dollar Costs of Soviet Activities if Duplicated in the US

160 Billion 1978 Dollars



The dollar cost estimates reflect the cost of producing and manning in the US a military force of the same size and weapons inventory as the Soviet force and of operating that force as the Soviets do. The costs for military forces—investment and operating (less pensions)—are best estimates, with possible error margins displayed. The estimated costs of Soviet RDT&E are derived in the aggregate, using a less certain methodology. Because they provide only rough measures, they are shown separately from the dollar costs of military forces. The US defense costs are in terms of outlays based primarily on the Department of Defense Total Obligational Authority (TOA) in *The Five-Year Defense Program*, October 1978. The estimated dollar costs of projected Soviet defense activities for 1979 and 1980 are preliminary assessments subject to greater uncertainty than those for earlier years. Comparable US data were not available.

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SPECIAL ANALYSES

USSR: Dollar Defense Activities Comparisons

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The following is an abridged version of an unclassified paper presenting the CIA's latest comparison, in dollar terms, of US and Soviet defense activities. The mission definitions follow the guidelines in the Defense Planning and Programming Categories issued by the Department of Defense in November 1978. (U)

The military establishments of the USSR and the US are difficult to compare because they differ so much in missions, structures, and characteristics. Any common denominator used for comparative sizing--such as dollar costs--is imperfect, and this analysis should not be used alone as a definitive indicator of the relative effectiveness of US and Soviet military forces. The data presented here are expressed in constant 1978 (midyear) dollars so that trends in the cost estimates reflect changes in military forces and activities rather than inflation. The US figures have been converted to calendar year outlays and adjusted to achieve comparability. (U)

Aggregate Defense Costs

For the 1968-78 period, the cumulative estimated dollar costs of Soviet defense activities exceeded US outlays by over 10 percent. Estimated in constant dollars, Soviet defense activities increased at an average annual rate of 3 percent, with growth rate fluctuations reflecting primarily the phasing of major procurement programs for missiles, aircraft, and ships. Evidence on weapon systems currently in production and development, continuing capital construction at major defense industries plants, and the increasing costs of modern weapons indicate that the long-term growth trend in Soviet defense activities will probably continue into the 1980s. (U)

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In contrast, the trend in US defense outlays in constant dollars has been downward for most of the period. US outlays declined continuously from the Vietnam peak of 1968 until 1976. They increased slightly in 1977 and grew by 3 percent in 1978 as increases in procurement and research and development offset continuing declines in personnel costs. As a result of these diverging trends, the estimated dollar costs of Soviet defense activities caught up with US defense outlays in 1971 and exceeded them by a widening margin until 1977. In 1978 the Soviet total was about \$146 billion, nearly 45 percent higher than the US total of \$102 billion. (U)

Military Mission Comparisons

Over the 1968-78 period, the level of Soviet activity for strategic forces (exclusive of research and development) measured in dollars was two and a half times that of the US. Soviet activities showed a slight dip in the early 1970s with the completion of third-generation ICBM deployment programs, but they rose in the mid-1970s with the deployment of fourth-generation systems. US activities declined steadily until 1976, when they began growing at a slow rate. In 1978 the Soviet level was about three times that of the US. (U)

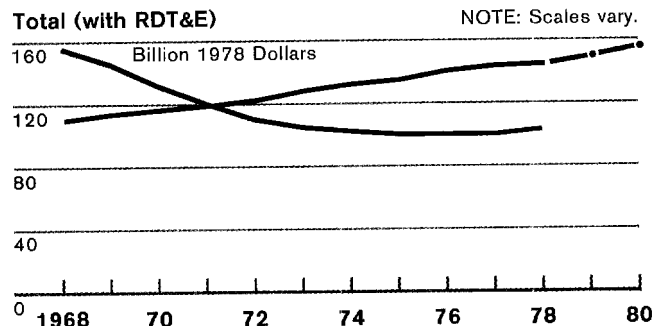
Estimated dollar costs of Soviet activities for general purpose forces (exclusive of research and development) have exceeded comparable US outlays since 1970, and the gap widened every year until 1978. For the 1968-78 period, the Soviet total for this category was about 35 percent higher than the US total. The US level of support activities has exceeded that of the Soviet Union over the 1968-78 period by approximately 35 percent when measured in dollar terms, but the difference has narrowed significantly over the period. Support activities account for 50 percent of the total US defense outlays and some 30 percent of the total estimated dollar cost of the USSR's defense activities for the entire period. (U)

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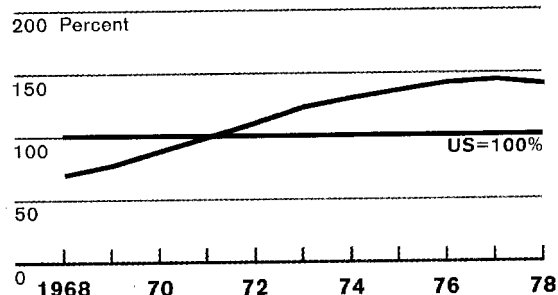
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US and Soviet Defense Activities

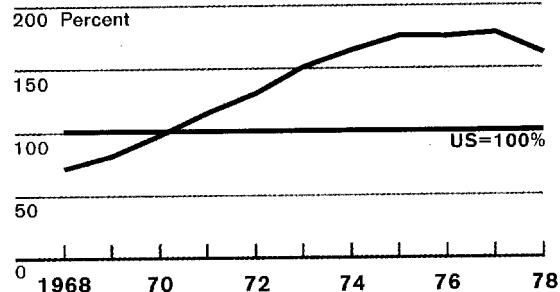
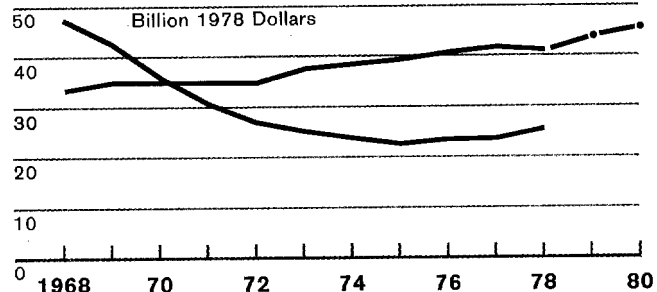
Dollar Cost of Soviet Activities
and US Defense Outlays



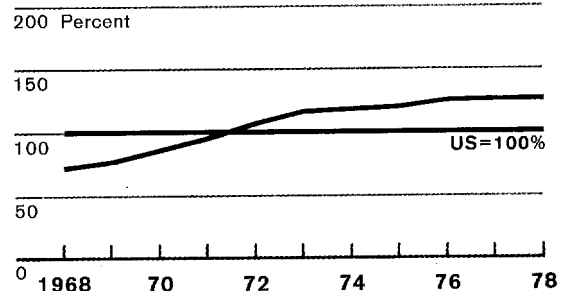
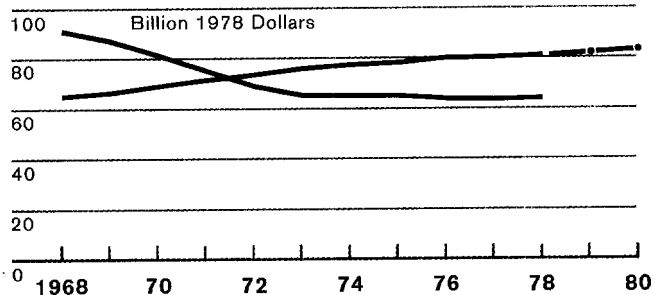
Dollar Cost of Soviet Activities
as a Percent of US Defense Outlays



Investment



Operating



Cumulative 1968-78



Investment includes all costs for procurement of military hardware and the construction of facilities, but excludes RDT&E. Operating includes all personnel-related costs (with the exception of pensions) and all costs associated with the operation and maintenance of weapon systems and facilities.

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Resource Comparisons

Soviet and US defense activities can also be compared in terms of major resource categories: military investment, operating costs, and research and development costs. (U)

The trends in military investment followed closely those for total defense costs in both countries. The Soviet investment estimate showed an upward trend but displayed cycles in annual growth rates that were related to the phasing of major procurement programs--especially those for missiles and aircraft. The estimated dollar cost of Soviet investment programs was fairly constant during the early 1970s, rose in the mid-1970s, and declined slightly in 1978. This dip occurred because several major procurement programs have ended or are nearing completion. New systems are expected to enter production in the next year or so, however, resulting in another cyclical increase. The US investment figure fell continuously from 1968 until 1975 and then increased at a slow rate before jumping substantially in 1978. (U)

The estimated dollar cost of Soviet military investment exceeded comparable US spending by about 75 or 80 percent in 1975-77 and by about 65 percent in 1978. For the entire period it was 30 percent higher. (U)

Measured in dollar terms, operating costs made up the largest share of the total defense costs for both countries. Estimated Soviet dollar costs in this category grew continuously during the period, reflecting growing force levels, and exceeded those of the US by a widening margin after 1971. By 1978 they were 25 percent above comparable US outlays. US outlays declined rapidly after 1968 until the mid 1970s, reflecting the reduction and eventual end of the Vietnam involvement. Since that time the increase in operations and maintenance costs has offset the continued decline of personnel costs so that operating costs as a whole have remained fairly constant. (U)

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IRAN: Leftists in the Opposition

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Leftists appear to have played only minor roles in the demonstrations and disturbances of the past year in Iran. It is difficult to assess the strength of leftist influence in the widely disparate opposition movement. In this period of weakening political authority, however, the leftists are probably in a position to cause trouble.

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The opposition movement in Iran over the past year has emerged as a collection of disparate groups with differing ideologies:

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-- The most cohesive segment has been the religious opposition centered on Ayatollah Khomeini.

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-- The National Front is a secular coalition group with experienced political talent but with differing views across the political spectrum.

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-- On the left are the Communist Tudeh Party, the People's Sacrifice Guerrillas (a terrorist group), and various splinter groups, mainly students with extreme Marxist or Maoist leanings.

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Much of the leftist leadership is anonymous. The Tudeh probably played only a minor role during the past year in organizing the demonstrations that led to the current crisis. The degree of Tudeh influence in the opposition is difficult to measure because many Iranians tend to label any leftist a Tudeh member. The People's Sacrifice Guerrillas have been active since the early 1970s. In the past year they may have staged several attacks on police posts, and they were probably responsible for some recent assassinations.

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Oilfield Radicals

Events of recent months indicate that extreme leftists are well-organized in the oilfields and that they are not responsive to the control of conservative religious or moderate opposition leaders: [redacted]

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-- Two prominent oil officials, one American and the other Iranian, were assassinated on 23 December [redacted]

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The radical leaders in the oilfields probably also include many non-Communists who, during their education abroad, were exposed to the tactics of strikes and demonstrations. [redacted]

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[redacted] the strike leaders were politically savvy, younger technical employees. Significant numbers of Iranian students have returned home from the US and Western Europe in recent months. The situation is complicated further by the fact that Arab oil workers may have exploited the situation to demand a greater ethnic voice in the political process. [redacted]

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The Tudeh staged its first demonstration in Tehran yesterday; it reportedly attracted 10,000 participants. There is evidence that some previous demonstrations probably were led by people beyond the influence of Khomeini or the moderate opposition leaders, who have urged their followers to shun violence in order to avoid provoking the military into a crackdown. The frequent, apparently uncoordinated lapses into violence in various cities have worried these leaders and led them to step up their pleas that people must not take justice into their own hands. [redacted]

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A Look Ahead

The religious leaders who largely inspired the broad opposition movement are still its vanguard.

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The dissipation of authority, symbolized by an erosion of the military's cohesion, the virtual dissolution of the intelligence and security organization SAVAK, and the Shah's departure, is bound, however, to encourage all opposition groups--especially the leftist groups with their own ideas of what the new order should be. The Tudeh and other leftist groups probably look forward to a "revolutionary" period of chaos and liberalized political standards in which they hope to organize their cadres throughout the country. [REDACTED]

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The leftists are likely to become increasingly active among Iran's students, who have long been a primary source of recruits for ultraleft and terrorist organizations. Leftist groups will probably also redouble their efforts to infiltrate all sectors of government, including the military. [REDACTED]

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The slippage of power from the hands of the conservative and moderate opposition leaders may become most apparent in the labor field. There was no labor movement in Iran until late last year--the few unions were discredited and had little influence. In recent months, however, the workers have discovered their power and learned that they can bring the country to a standstill. New worker organizations will become powerful forces in the future Iranian political equation, and they will demand a voice in future governments. [REDACTED]

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OVERNIGHT REPORTS

(The items in the Overnight Reports section have not been coordinated within the intelligence community. They are prepared overnight by the Office of Current Operations with analyst comment where possible from the production offices of NFAC.)

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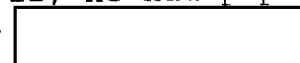
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USSR-Italy

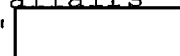
Foreign Minister Gromyko today begins a five-day official visit to Italy, where considerable controversy has developed over President Brezhnev's recent letter to Prime Minister Andreotti warning against Western arms sales to China. The letter has been published in Italy, and the Socialist-leaning newspaper *La Repubblica*, for example, yesterday termed it "rude interference in the sovereign affairs of a nation." The Communist Party daily *L'Unita* only mentioned the letter without comment in a dispatch filed from Moscow. Gromyko is scheduled to confer Wednesday with Pope John Paul II; he had papal audiences with Paul VI in 1966 and 1974.



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Jordan

King Hussein begins an overnight visit to Saudi Arabia today. According to Amman radio quoting an official Jordanian source, Hussein will confer with King Khalid and other senior Saudi officials on "Arab affairs in light of the recent developments in the area."



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EC-Vietnam

The US Mission at EC headquarters in Brussels reports it has learned that the EC Commission will discuss the issue of continued economic assistance to Vietnam this week [REDACTED]

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The top aide to EC Commission Vice President Haferkamp is hopeful that the Commission will decide--at least for now--not to proceed with EC project assistance to Hanoi, although EC food aid to Vietnam will probably be continued. EC Development Commissioner Cheysson, on the other hand, sent a representative to Hanoi last week for talks on the Mekong Delta project despite the opposition of Haferkamp and other Commissioners. The US Mission notes that Cheysson, a French Socialist, has maintained significant personal relations with Hanoi officials for over two decades. [REDACTED]

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Angola-China

Angola's ruling party has decided to accept a Chinese request for a meeting "to pave the way for the establishment of diplomatic relations," according to a Radio Luanda broadcast yesterday. The broadcast asserted that the party's Political Bureau had made its decision on 5 January. [REDACTED]

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Pakistan-China

In a lengthy assessment of Sino-Pakistani relations, the US Embassy in Islamabad says that those ties are perhaps the single most important bright spot in Pakistan's foreign relations. China clearly supports Pakistan's continued participation in CENTO. The relationship, however, derives its sustenance from factors essentially external to purely bilateral ties, especially the two countries' shared hostility toward the USSR and India. The Embassy thus concludes that Sino-Pakistani relations would be affected by fundamental changes in foreign policies pertaining to South Asia, notably a warming of Soviet-Pakistani relations or of Sino-Indian relations.

[REDACTED]

Pakistani President Zia-ul-Haq conferred with visiting Chinese Vice Premier Li Xiannian (Li Hsien-nien) in Rawalpindi yesterday; they reportedly talked for four hours on a wide range of foreign policy subjects. [REDACTED]

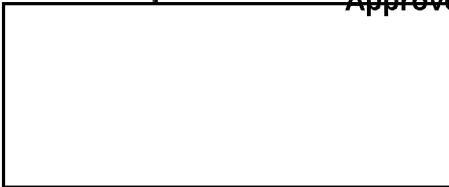
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